

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

May 17, 2005

The Capital Projects and Bond Oversight Committee met on Tuesday, May 17, 2005, at 1:00 PM, in Room 129 of the Capitol Annex. Senator Elizabeth Tori, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Mike Denham, Co-Chair; Senator Elizabeth Tori, Co-Chair; Representatives Bob Damron and Paul Marcotte; and Senators Tom Buford and Dan Seum.

Guests testifying before the Committee: Larry Owsley, University of Louisville; Bill Hintze, Governor's Office for Policy and Management; Jim Abbott, Finance and Administration Cabinet; General Leslie Beavers, Department of Veterans' Affairs; Glenn Mitchell, Department of Agriculture; Warren Nash, Economic Development Cabinet; Sandy Williams and John Covington, Kentucky Infrastructure Authority; Tom Howard, Office of Financial Management; Lori Flanery and Mike Powers, Kentucky Housing Corporation; and Keith Rogers, Governor's Office of Agricultural Policy.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, Bart Hardin, and Shawn Bowen.

Senator Tori asked Representative Denham to address a change he had requested to the draft minutes of the April 19, 2005 meeting. Representative Denham explained the change which related to the tobacco settlement payment, and Representative Marcotte made a motion to approve the minutes of the April 19, 2005 meeting as amended. The motion was seconded by Senator Seum and passed by unanimous roll call vote.

Senator Tori recognized Representative Jim Bruce, who was in attendance at today's meeting.

Senator Tori called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence items. Ms. Collins said members' folders included correspondence from Ken Walker, Vice President, Kentucky Community and Technical College System (KCTCS), regarding a property acquisition by KCTCS.

Senator Tori said the first item of new business was a resolution honoring Senator Robert Leeper, who served on the Committee since 1992 as vice chair and also as co-

chair. After Ms. Collins read the resolution, Representative Denham made the motion to approve the resolution honoring Senator Leeper. The motion was seconded by Representative Marcotte and passed by unanimous voice vote.

Senator Tori next introduced Mr. Larry Owsley, Vice President for Finance and Administration, University of Louisville (U of L), to discuss two project reports submitted by the University. Mr. Owsley reported that U of L has purchased two pieces of scientific equipment, one for nanotechnology research and the other for cancer research. The items cost \$495,000 and \$187,000, respectively, and were funded with federal funds. Purchases of scientific equipment must be reported to the Committee within 30 days, but no further action by the Committee is required.

Mr. Owsley then reported that U of L is requesting approval for an unbudgeted project to construct a Regional Computer Forensic Laboratory. The purpose of the lab is to provide state-of-the-art facilities for computer forensic training and investigations for federal, state, and local agencies. He said the cost of the project will be funded by a grant of \$2,968,000 from the U.S. Department of Justice.

Mr. Owsley said this project was approved by the U of L Board of Trustees in April, and is recommended for approval by the staff of the Council on Postsecondary Education.

Senator Buford made a motion to approve the U of L project. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Senator Tori asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, and Mr. Jim Abbott, Commissioner of Facilities and Support Services, Finance and Administration Cabinet, to present the Finance Cabinet's monthly report to the Committee. Mr. Hintze reported an unbudgeted project for the Kentucky Department of Veterans' Affairs to renovate the General Nursing Care Units at Thomson-Hood Veterans Center in Wilmore. Mr. Hintze said the project scope is \$1,222,000 (\$794,300 in federal funds and \$427,700 in restricted funds).

Mr. Hintze said this project is needed due to wear and tear on the facility, and new codes that have come into effect since the facility was opened. He explained that this project is being brought before the Committee now so when federal funds become available, the Department will be able to demonstrate the availability of the state funds by legislative action. He said the federal funds may come from next year's federal budget or the year after.

Representative Damron asked if they will have to wait until the federal funds are received to start the project. Mr. Hintze said usually the Committee prefers that the federal funds are at least committed before a project moves forward. He said they could

do the design work from state funds, and hold off on awarding the contract in anticipation of the federal funds.

In response to a question by Representative Damron, General Leslie Beavers, Department of Veterans' Affairs, said this project is not part of the Department's Six Year Plan, but it is part of the ongoing renovation of the facility. He said they have renovated two of the five units at Thomson Hood, and now want to renovate the remaining three units.

General Beavers added that there is an August 15 cut off date for new federal projects, and they cannot wait until the 2006 Session to get approval for the project.

Senator Buford said the legislature appropriated approximately \$350,000 for the Department of Veterans' Affairs to purchase land adjacent to Thomson-Hood. He asked if the cost of this land has been established yet. General Beavers said the land has been purchased and the price was \$265,000.

Senator Tori asked why this project was not in the Six Year Capital Plan. General Beavers said he just had not thought to add it to their capital plan last year, and once they realized the benefit of the earlier renovations, they decided it made sense to renovate the whole facility.

Mr. Hintze said this project could be added to the agency's Six Year Capital Plan by amendment. Senator Tori said it would be a good idea to do so.

Representative Damron made a motion that the Thomson-Hood Veterans Center Renovation project be approved. The motion was seconded by Senator Buford and passed by unanimous roll call vote.

Mr. Hintze next reported that the Department of Agriculture's Purchase of Agricultural Conservation Easements (PACE) program has received an additional \$1,274,000 in federal funds. These funds must be matched with state funds and can only be used to purchase agricultural conservation easements.

Senator Tori asked how much in unobligated funds is available to PACE. Mr. Glenn Mitchell, Administrative Services Director, Department of Agriculture, said there is approximately \$1.5 million still available to PACE.

Representative Denham said constituents in his district have told him they are routinely denied under the PACE program. He said he thought the program was wonderful, but said all counties in Kentucky should be considered and not just a select few. He said to his knowledge, the three counties he represents have never received any PACE money.

Mr. Mitchell said the PACE board has an extensive criteria ranking system for projects. He said out of the 709 applications from 73 counties, 587 of those applications are still pending. They only have enough funding to actually purchase a fraction of the easements offered by the applicants.

Senator Buford requested that the Department of Agriculture submit a list of the last 100 PACE awards made to see how the funds are being distributed. Mr. Mitchell said they will provide that list to the members. He noted that Lexington has its own PACE program, and they will provide information on that program as well.

In response to a question from Senator Seum, Mr. Mitchell said the criteria considered in determining which easements to purchase are extensive. They include proximity to other easements and the proximity to development.

Representative Denham made a motion to approve the PACE project. The motion was seconded by Senator Seum and passed by unanimous roll call vote.

Mr. Hintze then reported an erosion prevention project titled FILO-Brushy Creek - Greenup County. The project scope is \$800,000, and will be funded from the Fees-In-Lieu of Stream Mitigation projects pool. Mr. Hintze said projects over \$400,000 funded from the Pool are to be reported to the Committee.

Senator Tori asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, to report on a proposed Economic Development Bond (EDB) grant.

Mr. Nash reported a proposed grant of \$250,000 to the City of Danville to benefit 3B, Inc., a privately-owned affiliate of two companies, based in Treviso, Italy. The company is acquiring a 150,000 square foot facility in Danville, Boyle County, to locate their North American headquarters for the manufacture and distribution of kitchen, bath and living room furniture components.

Mr. Nash said the EDB grant agreement stipulates that 3B, Inc. will create 100 new full-time jobs for Kentucky residents within two years of project completion, and the company will be required to pay the new employees a minimum average wage of \$15 per hour. 3B, Inc. will also be required to maintain these jobs for an additional three years. He said if the company fails to meet these requirements, it must pay the City \$2,500 per job not created or maintained.

Senator Seum asked if the company is required to post a bond. Mr. Nash said a letter of credit is the security for this grant.

Senator Tori asked if 3B will provide vacation and leave time for its employees. Mr. Nash said employees will receive vacation and leave time, as well as health and dental insurance, and profit sharing opportunities.

Senator Buford made a motion to approve the EDB project. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), reported three new KIA loan requests. The first request was a Fund A (Federally Assisted Wastewater Revolving Loan Fund) loan for the City of Carrollton in Carroll County. The proceeds of the loan, \$4,744,398, will be used to construct a new regional wastewater treatment plant.

Ms. Williams next reported a Fund C (Governmental Agencies Program Loan Fund) loan for the Peaks Mill Water District in Franklin County. Loan proceeds of \$946,900 will be used to provide water service to approximately 50 new customers in Franklin County.

The third request was a Fund F (Federally Assisted Drinking Water Revolving Loan Fund) Loan for the City of Richmond in Madison County. The proceeds of the loan, \$8,000,000, will be used to make improvements to the city's existing water treatment plant.

Senator Buford noted the bid for the Peaks Mill Water District project was awarded in October 2004. He asked why this project had been delayed so long. Mr. John Covington, KIA Analyst, said the project came in overbid, and they had trouble coming up with additional funding. The contractor agreed to hold the bids with a slight adjustment for the cost of the materials. Mr. Covington said he did not know why the water district had trouble getting the additional funding, and Ms. Williams added that she would find out and let the Committee know.

Representative Damron made a motion to approve the three KIA loan requests. The motion was seconded by Senator Buford and passed by unanimous roll call vote.

The next report was provided by Mr. Tom Howard, Deputy Executive Director, Office of Financial Management (OFM). Mr. Howard presented two new bond issue reports: Kentucky Housing Corporation (KHC) Conduit Multifamily Housing Mortgage Revenue Bonds, 2005 Series A (Gleneagles Apartments project in Lexington) (AMT). The proceeds from this bond issue, \$11,060,000, will be used to provide conduit financing for a new multi-family housing complex to be known as Gleneagles Apartments in Lexington.

Representative Denham asked if it is unusual for one firm to serve both as both bond counsel and underwriter's counsel. Mr. Howard said it would be unusual for

government transactions, but for private or conduit transactions, this is a routine occurrence to save transaction costs. He said as long it is specifically disclosed amongst the parties they represent, it is the developer's option. He added that the Kentucky Housing Corporation, as the issuer, also has hired counsel and it is not the same firm representing bond counsel and underwriter's counsel.

Senator Seum asked what the state's responsibility is for such bonds. Mr. Howard said the Office of Financial Management's primary responsibility is to make sure the bonds are not an obligation of the Commonwealth, and only the asset itself and the developer are responsible.

In response to a question from Senator Tori, Mr. Howard said he presumed that the conduit guidelines adopted by KHC were followed on this issue. Representative Damron asked if this project had been presented to the Lexington-Fayette Urban County Government. Ms. Lori Flanery, Legal Counsel, KHC, said they have received a letter of support from Mayor Isaacs, and had also notified the representative and the senator representing the area where the project is to be located. She said a public hearing was held, and they received no comments.

Representative Damron asked what legislative district this project is in. Mr. Mike Powers, KHC, said the project is located in the eastern part of Lexington, on Man O War near the Hamburg shopping center and I-75. Ms. Flanery said she would provide the names of local legislators who were notified of the project.

Senator Seum made a motion to approve the KHC bond issue. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Mr. Howard next presented another new bond issue: University of Louisville Consolidated Educational Buildings Revenue Bonds, Series P, dated June 1, 2005. The proceeds from this bond issue, \$4,240,000, will be used to finance the acquisition of the former Home of the Innocents building. It will be renovated for use by the School of Public Health and Information Services.

Representative Damron made a motion to approve the University of Louisville bond issue. The motion was seconded by Representative Denham and approved by unanimous roll call vote.

Senator Tori asked Mr. Howard to update the Committee on his meeting in New York with the rating agencies. Mr. Howard said the most recent meeting had to do with a presentation on the Grant Anticipation Revenue Vehicle (GARVEE) project notes and issues for a Bluegrass Station project and Phase II Tobacco payments. He said these three projects are unique financings for the Commonwealth and they discussed with the rating agencies the security features for each of those issues.

Representative Damron asked about the schedule for bonds to be issued for the water projects approved by the 2005 General Assembly. Mr. Howard said they are now structuring financing to cover the state's immediate needs, which include Bluegrass Station and the Transportation issues. He said they will then focus on the university interim financing program. General Fund project funding requirements are being evaluated for an August issue. They will also provide interim financing for those projects that are not quite ready to move forward. Mr. Howard said he was not sure where the water projects stood in terms of their readiness to move forward.

In response to Representative Damson's comment that some of the projects in his district are ready to start and need financing, Mr. Howard said there is no prohibition on advancing funds from the General Fund to KIA to allow initial funding of the water projects. Those dollars would then be returned to the General Fund when bonds are issued in August.

Mr. Hintze indicated they are moving as fast as possible, given the record amount of projects and debt approved by the 2005 General Assembly. He said in order to move forward with the water projects, KIA must first execute a Memorandum of Understanding with each of the affected communities. Mr. Hintze said if there are some projects that are ready and have an executed MOU, they have some limited ability to cashflow those projects by other means until the bonds are sold and permanent financing is in place.

Representative Damron asked if the state plans to issue a Tax and Revenue Anticipation Note (TRAN) this year. Mr. Howard said the state does plan to issue a TRAN for approximately \$500,000,000.

Representative Damron said from a cashflow standpoint, it appears that KIA should have the ability to approach GOPM and request temporary financing from the General Fund to start these community projects if a MOU is in place. Mr. Hintze agreed, saying they would collaborate with OFM and Finance Cabinet Secretary Rudolph to decide what the best mechanism is to cashflow these projects.

Representative Denham asked about the Phase II Tobacco settlement bonds. Mr. Howard said they are proceeding with the sell of the bonds as a traditional 20-year, level debt, tax-exempt transaction. He said they hope to sell the bonds May 24, with a settlement date of June 8. Once the proceeds are available, the Governor's Office for Agricultural Policy will work with the trustee to distribute those checks to the individuals.

Both Senator Buford and Representative Denham asked about the issue of assignment of rights to tobacco settlement funds. (Proceeds of the bonds will be used to

provide financing for the General Fund (tobacco) supported Phase II Tobacco Settlement state payments to the beneficiaries of the National Tobacco Growers Settlement Trust. These state payments are being made in lieu of the final year of distribution of the Trust, which is in litigation. The 2004-06 Executive Budget requires beneficiaries to assign their rights to moneys under the Trust Fund as a condition of receiving state payments).

Mr. Keith Rogers, Executive Director of the Governor's Office for Agricultural Policy, said the assignment issue has been worked out, all levels of counsel have signed off on it, and the Governor has approved their recommendation. Mr. Rogers said the Trust has provided a letter indicating that they feel comfortable with the process. He said assignment language will be on both sides of each check, and the checks will not be honored unless they are endorsed.

Mr. Howard then presented two follow-up reports for previously approved bond issues: Kentucky Housing Corporation Housing Revenue Bonds, 2005 Series A (AMT) and Series B (AMT), \$35,000,000; and Turnpike Authority of Kentucky, Economic Development Road Revenue Refunding Bonds, 2005 Series A and Economic Development Road Revenue Bonds, 2005 Series B, \$247,080,000. These bond issues were previously approved, and no further action was required for these reports.

Mr. Howard next presented ten new school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Campbellsville Independent (Taylor Co.), Christian County, Frankfort Independent (Franklin Co.), Hardin County, Lincoln County, Logan County, Ohio County, Wayne County, Whitley County, and Williamsburg Independent (Whitley Co.).

Representative Marcotte made a motion to approve the ten school bond issues. The motion was seconded by Senator Seum and passed by roll call vote. Representative Damron abstained from the vote citing a potential conflict of interest.

Ms. Collins said there was one locally-funded school bond issue from Hardin County submitted to the Committee for review this month. She said all disclosure information has been filed, and no further action on the bond issue was required.

Also included in members' folders was the debt issuance calendar. No action was required for this report.

Senator Tori said the Committee's next meeting is scheduled for June 21 at 1:00 p.m. in Room 129, Capitol Annex.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded, and the meeting adjourned at 2:15 p.m.